

## Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ISO-00 SCI-06 INT-08 TRSE-00 OMB-01

CIEP-02 PM-07 NSC-10 SPC-03 SS-20 RSC-01 CIAE-00

DODE-00 INR-10 NSAE-00 PA-04 USIA-15 PRS-01 DRC-01

FPC-01 SCEM-02 /115 W

----- 121368

R 140340Z NOV 73

FM AMCONSUL MELBOURNE

TO SECSTATE WASHDC 1876

INFO USDOC WASHDC

AMEMBASSY CANBERRA

AMCONSUL SYDNEY

LIMITED OFFICIAL USE SECTION 1 OF 2 MELBOURNE 1173

E.O. 11652: N/A

TAGS: BEXP, ENRG, ECON, AS

SUBJECT: SOUTH AUSTRALIA'S PETROCHEMICAL PROJECT GETS  
'GO AHEAD' SIGNAL ON MINISTER CONNOR'S TERMS.

REF: MELBOURNE A-44 OF SEPTEMBER 27 AND PREVIOUS.

1. SUMMARY: THE LONG STANDING PROJECT TO CONSTRUCT A PETROCHEMICAL COMPLEX AT REDCLIFFS USING COOPER BASIN NATURAL GAS FINALLY RECEIVED A 'GO AHEAD' SIGNAL FROM THE FEDERAL MINISTER FOR MINERALS AND ENERGY, REX CONNOR, WHO ANNOUNCED THAT A CONSORTIUM MADE UP OF ALCOA, ICI, MITSUBISHI, AMPOL, CSR, AND THE AIDC WON THE RIGHT TO DEVELOP THE A\$350 MILLION VENTURE. INITIAL REPORTS INDICATE MR. CONNOR HAS HAD AN ALL OUT VICTORY, INASMUCH AS IT IS TO HIS TERMS THAT THE PROJECT IS BEING DESIGNED. END SUMMARY.

2. IN A SURPRISE ANNOUNCEMENT DURING A PARLIAMENTARY QUESTION PERIOD, MINISTER FOR MINERALS AND ENERGY CONNOR STATED THAT A CONSORTIUM CONSISTING OF ALCOA, IMPERIAL

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CHEMICAL INDUSTRIES OF AUSTRALIA AND NEW ZEALAND LTD.,

mitsubishi, the Australian Petroleum Company Ampol, the Australian Sugar Company Colonial Sugar Refining Co Ltd., and the newly revamped Australian Industries Development Corporation would build and operate the petrochemical complex long planned for Redcliffs in South Australia. Negotiations have been touch and go for some time because of Connor's insistence on majority local equity and distilling gasoline from LPG (butane and propane). It had appeared earlier that Dow Chemical would win the contract since South Australian Premier Dunstan was known to favor it for its technical knowhow, as well as its ability to market EDC, an important by-product of the plant.

3. The entire petrochemical project envisages expenditures in the neighborhood of A\$350 million, including Delhi-Santos' A\$125 million infrastructure to be built in the Cooper Basin and at the Redcliffs terminal, as well as an additional A\$225 million for the caustic soda, chlorine and EDC plant and A\$123 million thermal power plant to be built by the South Australian government.

4. The project's timetable now revolves around early negotiations to work out a contract between the suppliers (335,000 to 380,000 tons of ethane annually) and the consortium. Once the South Australian government passes the enabling legislation and it is approved by the Australian government in Canberra, the first ground is expected to be broken in April, 1974, with production to be on stream by September, 1977.

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CIEP-02 PM-07 NSC-10 SPC-03 SS-20 RSC-01 CIAE-00

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R 140340Z NOV 73  
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TO SECSTATE WASHDC 1877  
INFO RUEHDC/USDOC WASHDC  
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5. COMMENT: THE STRAINED RELATIONS BETWEEN CONNOR AND DUNSTAN HAVE BEEN OBVIOUS FOR SOME TIME AND INSIDERS HAVE LONG PREDICTED THAT THE PREMIER WOULD GO AS FAR AS NECESSARY IN ORDER TO ENSURE THE SUCCESS OF THE PROJECT ON TERMS MOST SATISFACTORY TO SOUTH AUSTRALIA. HOWEVER, THE MINISTER APPEARS TO HAVE OUT-FLANKED THE PREMIER BY PUBLICLY ANNOUNCING AND SUPPORTING PLANS FOR A COMPARABLE PROJECT ON THE NORTH WEST SHELF OF WESTERN AUSTRALIA. USING THIS AS A CLUB TO THREATEN THE VERY EXISTENCE OF THE REDCLIFFS PROJECT, AND GETTING PRIME MINISTER WHITLAM TO FORCE STRICT PARTY OBEDIENCE, ALLOWED CONNOR TO GET HIS OWN WAY. CONNOR'S VICTORY LIE IN THE FACT THAT A)  
THERE WILL BE AT LEAST 51 PERCENT AUSTRALIAN EQUITY PARTICIPATION IN THE COMPLEX THROUGH AMPOL, CSR AND AIDC.  
B) THE RESIDUAL LPG (BUTANE/PROPANE) WILL HAVE TO BE USED TO PRODUCE GASOLINE.  
AMPOL WILL PROBABLY HAVE TO MARKET THIS MORE EXPENSIVE GASOLINE, BUT IT IS UNDERSTOOD THAT CONNOR NOW RECOGNIZES LIMITED OFFICIAL USE

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THAT THE ADDITIONAL COST FACTOR IS A PROBLEM AND WILL EITHER TRY TO SQUEEZE THE REFINERY'S PROFIT MARGIN OR COME UP WITH A FLOATING EXCISE RATE THAT WILL BRING LOWER PRICED GASOLINE UP TO AN EQUAL PRICE WITH THAT MANUFACTURED FROM PROPANE/BUTANE.

SOURCES CLOSE TO PREMIER DUNSTAN SAY THAT HE WAS COMPLETELY UNWARE THAT CONNOR WAS GOING TO MAKE A STATEMENT ON REDCLIFFS SINCE A NUMBER OF DETAILS, SUCH AS INFORMING DOW THAT THEY HAD LOST, HAD NOT YET TAKEN PLACE. THESE SAME SOURCES CLAIM THAT DUNSTAN HAD NO CHOICE BUT TO CAPITULATE TO CONNOR BECAUSE HE WAS BOXED IN POLITICALLY- ONE CLOSE ASSOCIATE BLAMED "DIRTY POLITICS". IT IS ALSO UNDERSTOOD THAT EVEN THOUGH DOW HAD AT ONE TIME APPEARED TO OFFER UP TO 30 PERCENT LOCAL EQUITY, IN THE LAST ANALYSIS THEY REFUSED TO ALLOW LOCAL PARTICIPATION. THAT HAS NOT YET BEEN FACTUALLY ESTABLISHED, ALTHOUGH DOW HAS HISTORY OF COOPERATION WITH

MITSUBISHI, WE HAVE HEARD THAT WHEN DOW HAD TRIED TO PRESSURE  
MITSUBISHI ON THE SALES OF EDC TO BE PRODUCED FROM THIS PLANT,  
MITSUBISHI HAD REFUSED TO GO ALONG AND JOINED FORCES WITH ALCOA  
AND ICI INSTEAD.

THE BIGGEST OBSTACLE NOW FACING THE VARIOUS PARTICIPANTS  
IS HOW TO GET NINE PARTIES TO THE NEGOTIATIONS: ALCOA,  
ICI, MITSUBISHI, AMPOL, CSR, AIDC, DELHI/SANTOS, SOUTH  
AUSTRALIAN GOVERNMENT AND THE FEDERAL GOVERNMENT TO COME  
TO TERMS. IF THIS GROUP CAN PRODUCE A SATISFACTORY  
AGREEMENT, CONNOR WILL PROBABLY BE HAILED AS THE "SECOND  
GREATEST" MINISTER AUSTRALIA HAS EVER HAD.  
END COMMENT.  
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## Message Attributes

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**Channel Indicators:** n/a  
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**Disposition Approved on Date:**  
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**Disposition Date:** 28 MAY 2004  
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